

# LEGISLATIVE AUDIT COMMISSION



Review of  
Department of Military Affairs  
Two Years Ended June 30, 2002

622 Stratton Office Building  
Springfield, Illinois 62706  
217/782-7097

**REVIEW: 4194**  
**DEPARTMENT OF MILITARY AFFAIRS**  
**TWO YEARS ENDED JUNE 30, 2002**

**FINDINGS/RECOMMENDATIONS - 5**

**ACCEPTED - 3**  
**IMPLEMENTED - 2**

**REPEATED RECOMMENDATIONS - 1**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 5**

This review summarizes the audit of the Department of Military Affairs for the two years ended June 30, 2002, filed with the Legislative Audit Commission April 3, 2003. The auditors performed a compliance audit in accordance with State law and *Governmental Auditing Standards*.

The Department of Military Affairs (Department) serves as the channel of communication between the federal government and the State on all matters pertaining to the Illinois National Guard, which is comprised of the Illinois Army National Guard and the Illinois Air National Guard. The Illinois National Guard has approximately 13,500 members. The Guard's federal mission includes providing highly trained, well-equipped personnel and units capable of rapid deployment when called upon by the President of the United States in time of war or national emergency. The State mission is to support civil authorities when called upon by the Governor to protect life and property and preserve peace, order and public safety.

The Governor appoints the Adjutant General. The Adjutant General is the head of the Department of Military Affairs. The Adjutant General plans, develops and executes plans for organizing, training, equipping, and mobilizing the Illinois National Guard for use in State emergencies and national defense. Illinois National Guard's military installations, facilities, armories, grounds, property, and equipment are the responsibility of the Adjutant General.

Brigadier General Randal E. Thomas, the current Adjutant General, was appointed to the position in June 2003. Major General David Harris was the adjutant general during the audit period. The Army National Guard maintains 53 armories, and several other facilities including outdoor weapons ranges, training areas, warehouses, maintenance facilities and storage buildings. The Air National Guard maintains two flying bases at two civilian airports and one on an active U.S. Air Force Base. The Department organizes and operates Lincoln's Challenge for at-risk youth ages 16 through 18.

The average number of full-time employees was:

2002 - 272; 2001 - 273; 2000 - 271.

### **Expenditures From Appropriations**

Appendix A presents a summary of appropriations and expenditures for the two-year period under review. The General Assembly appropriated \$31,911,194 to the Department in FY02. Of the appropriation, \$14.8 million was from the General Revenue Fund; \$15.1 million from the Federal Support Agreement Revolving Fund; \$0.5 million from the Illinois National Guard Armory Construction Fund; and \$1.5 million from the Military Affairs Trust Fund. Appropriations from the General Revenue Fund provide funding for: (1) the Office of the Adjutant General, which supervises the activities of the Illinois Army National Guard units and the Illinois Air National Guard units; and (2) the Facilities Division, which operates and maintains all State property of the Department including the 53 armories. Expenditures from the General Revenue Fund increased from \$13.85 million in FY01 to \$14.2 in FY02, an increase of 2.8%.

Overall expenditures from all funds increased from \$28,116,123 in FY01 to \$28,848,264 in FY02, an increase of \$732,141, or 2.6%. Lapse period expenditures were \$1.6 million, or 5.6%, in FY02.

### **Cash Receipts**

Appearing in Appendix B is a summary of cash receipts of the Department during the period under review. Total cash receipts decreased from \$15,289,786 in FY01 to \$15,091,348 in FY02. The vast majority of cash receipts are in the Federal Support Agreement Revolving Fund for the Lincoln Challenge program, Army/Air Federal Reimbursements and Cooperative Funding Agreement-Army. The decrease is related to rentals of the armories. The number of rentals permitted by non-profit groups fell in FY02 since the Illinois National Guard chose to divert all possible staff and resources toward responding to the September 11, 2001 attacks.

### **Property and Equipment**

Appearing in Appendix C is a summary of property and equipment transactions of the Illinois Department of Military Affairs during the period under review. The balance increased from \$121,627,000 as of July 1, 2000, to \$441,535,000 as of June 30, 2002. The increase is due to the restatement of assets required under GASB 34. However, Recommendation #5 relates to problems within the restatement.

### **Accountants' Findings and Recommendations**

## **REVIEW: 4194**

Condensed below are the five findings and recommendations presented in the audit report. There was one repeated recommendation. The following recommendations are classified on the basis of information provided by Adjutant General Thomas, via electronic mail received on January 15, 2004.

### **Accepted or Implemented**

- 1. Post fixed asset additions to the property control inventory records within 30 days of asset acquisition and reconcile fixed asset records and reports on a quarterly basis. (Repeated-2000)**

**Findings:** The Department did not adequately reconcile its various reports of fixed assets to the quarterly "Agency Report of Fixed Assets" (Form C-15) filed with the Comptroller. Additions and net transfers reported in Forms C-15 from the first quarter through the third quarter of FY01 did not agree with the information from other reports filed by the Department and other agencies. During FY02, there were no supporting documents for the additions and net transfers from the second quarter through the fourth quarter, or for the deletions on the second quarter and third quarter Form C-15 reports. While examining 25 equipment vouchers, the auditors noted that six could not be traced to the Department's property control inventory records.

**Response:** Accepted. The Department has been reconciling on a quarterly basis and will continue to do so. Most are recorded within 30 days or less. The Department will continue to attempt to capture all fixed asset additions timely.

- 2. Approve or deny all invoices within 30 days of receipt in order to comply with the State law and avoid paying interest to vendors. If necessary to comply with the 30-day deadline, streamline approval process.**

**Findings:** When the auditors examined vouchers, they noted that the Head of Unit or Receiving Officer did not sign 37 out of 125 vouchers within 30 days of receiving the invoice. The Department indicated it did not approve or deny bills within 30 days because the invoices must go to several different areas for approval prior to being submitted for payment.

**Response:** Accepted. The Department is analyzing vendor payments for processing changes which will help ensure that vendors' invoices are reviewed and approved (or denied) within 30 days of physical receipt of the bill.

### **Accepted or Implemented - concluded**

3. **Perform an analysis of vouchers coded to “6600-permanent improvements” for fiscal years 2001 and 2002 and adjust the books and records accordingly as of July 1, 2002. All capital asset additions coded as “6600-permanent improvements” should be capitalized on an ongoing basis.**

**Findings:** The Department did not evaluate permanent improvement vouchers to determine if they should be included in its State Property Reporting System during FY01 or FY02. In compiling its Property Report, the Department has not determined the amount of permanent improvement additions that should be included in the Property Report. Total vouchers coded to these accounts amounted to approximately \$585,000 and \$1,095,000 for FY01 and FY02, respectively.

**Response:** Accepted. The Department is recording coded vouchers as they are received. Also, the Department will review the “6600-permanent improvement” coded vouchers for FY01 and FY02 and adjust the property control records and reports accordingly. For FY03 and forward, the Department will review and capitalize all permanent improvement expenditures in compliance with SAMS criteria and guidelines.

4. **Enforce policy of requiring student signatures on the “Pay Report Roster by Team” report prior to releasing the cash allowance to the student. If the bank will not accept accountability for obtaining the signatures, Department personnel should begin disbursing the funds. Begin regular supervisory review of reports. Investigate and document payouts without signatures.**

**Findings:** Lincoln’s Challenge students were given a monthly allowance, disbursed by bank personnel. Upon receipt of the cash, the student is required to sign a roster as proof that funds were received. When the auditors examined two roster reports, 12 of 76 student signatures were missing from one report. One of 47 student signatures was missing on the second report.

**Response:** Implemented. New procedures have been developed and implemented to ensure that signatures are properly obtained for all cash allowance disbursements to LCA students, and to provide for adequate documentation of the re-deposit of the cash if it is not disbursed.

5. **Record all buildings and the related accumulated depreciation for items acquired prior to 1948 that are above the capitalization threshold. In addition, land assets below the threshold of \$100,000 should be deleted for financial reporting purposes.**

**Findings:** For FY02, the Department is required to implement the provisions of GASB 34. The restatement records the effect of depreciation as well as deletions of capital assets that will no longer be reported as capital assets within the financial statements because they fall below the capitalization threshold for financial reporting purposes.

## **REVIEW: 4194**

The listing of assets above the new capitalization threshold was prepared by the Department. However, the listing does not have asset tag numbers and asset descriptions vary from the previous completed listing. As a result, the auditors were unable to determine for many of the individual assets if they were properly excluded for financial reporting purposes. Equipment listed as deletions totaled approximately \$3.9 million.

The most material discrepancy within capital asset reporting is for buildings and improvements. The Department reported deletions of approximately \$30.7 million, which should have represented the sum total of individual assets less than \$100,000. The auditors reviewed the list and identified approximately \$27.86 million in assets that were inappropriately excluded. Apparently the Department deleted all buildings and improvements that existed before 1948. Also, land assets totaling \$501,780 were inappropriately capitalized because individually, each parcel is below the \$100,000 threshold.

**Response:** Implemented. The Department has made the necessary adjustments to the records for land and for buildings and accumulated depreciation as they relate to capitalized assets for financial reporting purposes in compliance with GASB 34 and the auditor's recommendation.

### **Emergency Purchases**

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY01 and FY02 the Department filed four affidavits for emergency purchases. In FY01, two purchases totaling \$44,501.00 were for repairs at the Paris Armory. Another repair for \$35,042.00 was completed at the Army Aviation Facility at Midway Airport. In

**REVIEW: 4194**

FY02, repairs totaling \$43,640.00 were purchased for the North Riverside facility. An additional emergency purchase for flag cabinets costing approximately \$118,000 was never received by the Auditor General.

**Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

Although there was no headquarter report filed for the end of FY02, the Department of Military Affairs indicated as of January 2002, five employees were assigned to locations other than official headquarters.

